

Top Research Picks

- ➔ MEP Infrastructure Developers (MIDL IN, BUY): A play on India's growing road tolling market

4 December 2015



BUY
TP: INR 70.00
▲ 35.1%

MEP Infrastructure Developers

MIDL IN

A play on India's growing road tolling market

MEP, India's leading road toll booth operator, is a play on traffic growth at its existing projects and likely growth in tolling project awards by NHAI and its affiliates. We are positive on MEP given its strong business model (TOT/OMT/tolling projects; pricing in of risks) and an improving financial profile. Based on its current project profile, we find ROEs (FY17/FY18: 57%/42%) impressive, with gains likely flowing in from soft interest rates going ahead. Initiate with BUY/Mar 17 TP of Rs 70.

- ➔ **Mumbai Entry Points project – a key value driver:** The Mumbai Entry Points project has been profitable for the company, given the low, initial equity commitment, and successful pricing of traffic risk. The project contributed 30%/26%/28%/19% of MIDL's total FY12/FY13/FY14/FY15 revenues, and we estimate the project to be PAT positive by FY17 as interest payments come off and revenues continue to grow.
- ➔ **Long-term outlook upbeat:** MEP's long-term growth profile remains strong given (1) its toll collection models like Toll, Operate, and Transfer (TOT) wherein MORTH and NHAI seek to securitize future toll revenues and (2) NHAI EPC awards (1,214/2,551km in FY14/FY15) as well as introduction of hybrid-annuity model for road projects. Also, MEP with a ~20-25% share in India's road tolling market (estimated at ~Rs 8bn- Rs10bn), would benefit from (1) higher project awards by NHAI/ State Highway authorities in 2017-18 (OMT-based projects 30-32/55-60; tolling projects 145-150/140-145) and (2) lower funding costs amid benign interest rates.
- ➔ **Operations to turn around in FY16:** Improving profitability on account of operating leverage coupled with lower debt servicing costs should make MEP FCFE-positive in FY17/FY18 (Rs 1.4bn/Rs 1.9bn), even as FY16E-end cash stands healthy at Rs 4.3bn.
- ➔ **Attractively priced:** We value the stock on a SOTP basis, 1) FCFE for MIPL at Rs 40, 2) FCFE for ST and LT projects at Rs 19, 3) Other projects at Rs 11/ share. BUY.

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	11,979	19,843	21,469	22,412	21,615
EBITDA (INR mln)	3,105	4,191	5,749	6,324	6,629
Adjusted net profit (INR mln)	(1,335)	(1,153)	295	872	1,031
Adjusted EPS (INR)	(12.1)	(10.5)	2.2	5.4	6.3
Adjusted EPS growth (%)	30.7	(13.4)	(120.5)	148.8	18.3
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	6.3	8.2	7.9	12.1	13.2
Adjusted ROAE (%)	450.3	73.4	(50.0)	57.3	41.7
Adjusted P/E (x)	(4.3)	(4.9)	24.0	9.7	8.2
EV/EBITDA (x)	11.7	8.8	6.7	5.1	4.7
P/BV (x)	(5.9)	(2.6)	7.8	4.3	2.8

Source: Company, Bloomberg, RCML Research

3 December 2015



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PRICE CLOSE (02 Dec 15)

INR 51.80

MARKET CAP

INR 8.4 bln

USD 126.6 mln

SHARES O/S

162.6 mln

FREE FLOAT

31.0%

3M AVG DAILY VOLUME/VALUE

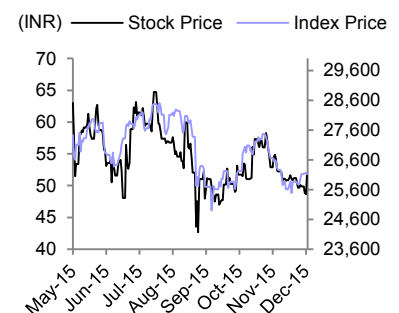
1.5 mln / USD 1.2 mln

52 WK HIGH

INR 67.20

52 WK LOW

INR 41.20



BUY

TP: INR 70.00

▲ 35.1%

MEP Infrastructure Developers

MIDL IN



Company Initiation

INDIA

CONSTRUCTION INFRASTRUCTURE

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	(12.1)	(10.5)	2.2	5.4	6.3
Adjusted EPS	(12.1)	(10.5)	2.2	5.4	6.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	(8.8)	(20.3)	6.7	12.0	18.4

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	3.0	1.9	1.8	1.4	1.4
EV/EBITDA	11.7	8.8	6.7	5.1	4.7
Adjusted P/E	(4.3)	(4.9)	24.0	9.7	8.2
P/BV	(5.9)	(2.6)	7.8	4.3	2.8

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	25.9	21.1	26.8	28.2	30.7
EBIT margin	15.0	12.1	18.4	20.1	21.4
Adjusted profit margin	(11.1)	(5.8)	1.4	3.9	4.8
Adjusted ROAE	450.3	73.4	(50.0)	57.3	41.7
ROCE	6.1	8.2	7.3	10.3	10.6
YoY Growth (%)					
Revenue	(6.4)	65.6	8.2	4.4	(3.6)
EBITDA	(14.9)	34.9	37.2	10.0	4.8
Adjusted EPS	30.7	(13.4)	(120.5)	148.8	18.3
Invested capital	3.2	(0.9)	(10.2)	(2.7)	(8.2)
Working Capital & Liquidity Ratios					
Receivables (days)	10	5	5	5	5
Inventory (days)	0	0	0	0	0
Payables (days)	35	48	64	67	72
Current ratio (x)	0.5	0.5	1.1	1.3	1.7
Quick ratio (x)	0.3	0.2	0.7	0.9	1.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	39.8	46.1	38.7	34.2	28.6
Total asset turnover	0.4	0.6	0.6	0.6	0.6
Net interest coverage ratio	0.5	0.6	1.1	1.3	1.4
Adjusted debt/equity	(32.4)	(13.3)	22.1	11.5	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	85.5	107.3	54.5	68.5	69.2
Interest burden (PBT/EBIT)	(86.7)	(44.9)	13.7	28.3	32.2
EBIT margin (EBIT/Revenue)	15.0	12.1	18.4	20.1	21.4
Asset turnover (Revenue/Avg TA)	35.1	55.3	58.6	59.9	57.1
Leverage (Avg TA/Avg equities)	(11506.9)	(2281.4)	(6205.1)	2462.3	1530.9
Adjusted ROAE	450.3	73.4	(50.0)	57.3	41.7

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MEP Infrastructure Developers

MIDL IN



Company Initiation

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CONSTRUCTION INFRASTRUCTURE

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	11,979	19,843	21,469	22,412	21,615
EBITDA	3,105	4,191	5,749	6,324	6,629
EBIT	1,802	2,391	3,957	4,496	4,630
Net interest income/(expenses)	(3,797)	(4,036)	(3,594)	(3,398)	(3,293)
Other income/(expenses)	433	570	178	174	154
Exceptional items	0	0	0	0	0
EBT	(1,562)	(1,075)	541	1,272	1,491
Income taxes	236	(79)	(246)	(400)	(460)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(9)	0	0	0	0
Reported net profit	(1,335)	(1,153)	295	872	1,031
Adjustments	0	0	0	0	0
Adjusted net profit	(1,335)	(1,153)	295	872	1,031

Balance Sheet

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	1,464	2,663	2,881	3,008	2,901
Other current liabilities	3,115	3,247	3,513	3,668	3,537
Provisions	3	5	0	0	0
Debt funds	30,049	31,639	28,355	28,308	27,221
Other liabilities	1,581	1,067	1,044	1,044	1,044
Equity capital	1,000	1,115	1,626	1,626	1,626
Reserves & surplus	(1,878)	(3,379)	(541)	330	1,361
Shareholders' fund	(878)	(2,264)	1,084	1,956	2,987
Total liabilities and equities	35,343	36,356	36,877	37,983	37,689
Cash and cash eq.	1,623	1,455	4,343	5,881	7,896
Accounts receivables	287	258	279	292	281
Inventories	0	0	0	0	0
Other current assets	1,237	2,442	2,642	2,758	2,660
Investments	6	216	216	216	216
Net fixed assets	253	283	353	423	493
CWIP	58	163	63	0	0
Intangible assets	23,384	21,276	17,984	16,993	15,081
Deferred tax assets, net	756	942	942	942	942
Other assets	7,738	9,322	10,054	10,479	10,120
Total assets	35,343	36,356	36,877	37,983	37,689

Cash Flow Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	(32)	646	2,087	2,699	3,030
Interest expenses	3,797	4,036	3,594	3,398	3,293
Non-cash adjustments	0	0	0	0	0
Changes in working capital	1,398	(1,250)	(497)	(272)	230
Other operating cash flows	(468)	0	0	0	0
Cash flow from operations	4,696	3,432	5,184	5,825	6,553
Capital expenditures	(727)	173	0	(843)	(158)
Change in investments	76	(103)	106	0	0
Other investing cash flows	173	0	0	0	0
Cash flow from investing	(478)	70	106	(843)	(158)
Equities issued	(1,244)	250	3,053	0	0
Debt raised/repaid	784	1,590	(3,285)	(47)	(1,087)
Interest expenses	(3,504)	(4,036)	(3,594)	(3,398)	(3,293)
Dividends paid	0	0	0	0	0
Other financing cash flows	(169)	(1,580)	1,530	0	0
Cash flow from financing	(4,134)	(3,777)	(2,295)	(3,445)	(4,380)
Changes in cash and cash eq	84	(274)	2,995	1,537	2,015
Closing cash and cash eq	1,623	1,348	4,343	5,881	7,896

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